

# The Working Family Credit and Federal Earned Income Credit

August 2022

## What are the credits?

The Minnesota working family credit (WFC) and federal earned income tax credit (EITC) equal a percentage of the earnings of low-income individuals. The credits are refundable; if the credit exceeds a filer's tax liability, the rest is paid as a refund. Since these credits increase their recipients' earnings, they act as wage supplements and are thought to provide a work incentive. Filers claim the credits when they file their federal and state income tax returns, by completing a schedule or worksheet.

## Who is eligible for the credits?

To claim the EITC and the WFC, an individual must have wages or self-employment income. Taxpayers generally must qualify for the federal credit to claim the Minnesota credit. Certain taxpayers are not eligible for the federal credit, including nonresident aliens, individuals living abroad, and individuals without a Social Security number. Individuals with significant investment income (more than \$10,300 in tax year 2022) are also ineligible for the credit. To claim the federal credit, a taxpayer must either be 25 years old or have at least one qualifying child; the age requirement for the Minnesota credit is 19.

## How are the credits calculated?

The credits equal a percentage of earned income, up to a maximum credit amount, and are phased out when the claimant's total income exceeds a threshold. The maximum credit amounts and income levels at which the credits are phased out vary depending on the number of children in the household and whether the claimants are married. Both the maximum credit and the phaseout threshold are adjusted annually for inflation. The numbers for tax year 2022 are as follows:

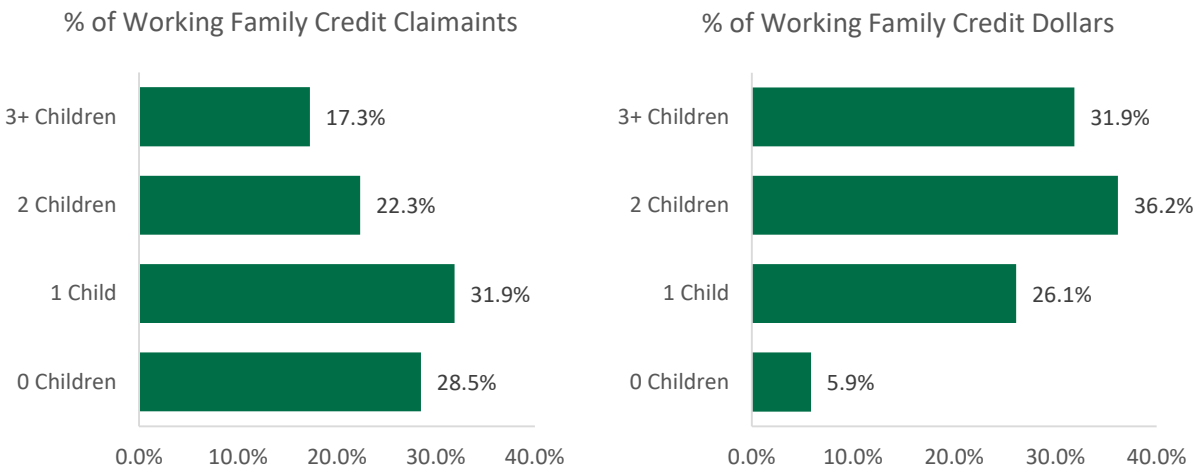
	Maximum credit		Phaseout threshold		Income at which credit fully phased out	
	WFC	EITC	WFC	EITC	WFC	EITC
<b>Unmarried claimants</b>						
No children	\$295	\$560	\$9,240	\$9,160	\$24,002	\$16,480
1 child	\$1,183	\$3,733	\$24,110	\$20,130	\$43,823	\$43,492
2 children	\$2,283	\$6,164	\$28,590	\$20,130	\$50,328	\$49,399
3+ children	\$2,646	\$6,935	\$28,900	\$20,130	\$54,102	\$53,057
<b>Married claimants</b>						
No children	\$295	\$560	\$15,430	\$15,290	\$30,192	\$22,610
1 child	\$1,183	\$3,733	\$30,290	\$26,260	\$50,003	\$49,622
2 children	\$2,283	\$6,164	\$34,770	\$26,260	\$56,508	\$55,529
3+ children	\$2,646	\$6,935	\$35,090	\$26,260	\$60,292	\$59,187

## Working Family and Earned Income Credit, Tax Year 2019

	Working Family Credit	Federal EITC
Minnesota returns claiming credit	404,408	327,970
Percent of Minnesota returns claiming credit	11.5% of state returns	13.5% of federal returns
Total credits claimed	\$282.6 million	\$711 million
Amount offsetting tax liability	\$40.2 million	\$85 million
Amount paid as refund	\$242.4 million	\$626 million
Average credit amount	\$699	\$2,168

### How are the credits distributed among different types of families?

Seventy-two percent of taxpayers claiming the working family credit had one or more children. These families received about 94 percent of the total amount of credits paid in tax year 2019.



### How are the credits distributed geographically?

In tax year 2019, 52 percent of the returns claiming credits were in the Twin Cities metropolitan area and 48 percent in Greater Minnesota. In Mahnomon County, 28.4 percent of returns claimed credits, as compared with only 8.0 percent in Carver County. The highest average credit went to Mahnomon County claimants, at \$912, and lowest to Blue Earth County claimants, at \$589.

### How does Minnesota compare with other states?

Nationwide, 17.2 percent of all income tax returns claimed the EITC in tax year 2019, compared to 11.5 percent in Minnesota. The average EITC nationwide in 2019 was \$2,459; it was \$2,168 in Minnesota. Minnesota's number of recipients and credit amounts are lower than the national averages because state residents have above-average incomes. In tax year 2019, 29 states (including Minnesota) and the District of Columbia provided a state credit. In most cases the state credit equals a percentage of the federal EITC.



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